

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Alternative Investments
Activity Status Report

ITEM NUMBER: 14

ATTACHMENT(S): 1

ACTION: _____

DATE OF MEETING: October 11, 2000

INFORMATION: X

PRESENTER(S): Réal Desrochers

The table below contains Alternative Investment activity for the month of August 2000 and historical information for selected time periods.

	Month Ended 8/31/00	Fiscal Year To Date	Past One Year	Past Three Years	Past Five Years
<u>Commitments:</u>					
Partnerships	\$ 90,000,000	\$ 520,000,000	\$ 3,170,860,000	\$ 5,409,270,813	\$ 6,875,080,789
Co-Investments	0	35,000,000	102,500,000	127,499,996	174,499,996
Secondaries	0	0	70,773,417	80,067,245	80,067,245
	\$ 90,000,000	\$ 555,000,000	\$ 3,344,133,417	\$ 5,616,838,054	\$ 7,129,648,030
<u>Contributions:</u>					
Partnerships	\$ 167,819,511	\$ 379,220,537	\$ 1,614,059,375	\$ 2,959,469,035	\$ 3,673,017,068
Co-Investments	0	30,757,574	54,409,859	79,409,855	126,409,855
Secondaries	29,000	842,338	63,642,682	71,512,922	71,737,922
Mgmt. Fee (Outside)	1,454,710	1,721,714	9,198,406	27,089,767	37,118,048
	\$ 169,303,221	\$ 412,542,163	\$ 1,741,310,322	\$ 3,137,481,579	\$ 3,908,282,892
<u>Distributions:</u>					
Cash	\$ 7,080,160	\$ 27,245,328	\$ 432,487,166	\$ 1,141,237,334	\$ 1,606,171,455
Stock	36,342,485	249,429,163	1,078,621,646	1,351,763,925	1,580,571,489
	\$ 43,422,645	\$ 276,674,491	\$ 1,511,108,813	\$ 2,493,001,259	\$ 3,186,742,944
Stock Sales	\$ 63,131,151	\$ 307,314,968	\$ 1,063,176,350	\$ 1,366,962,318	\$ 1,526,554,476

During the month of September 2000, staff made a \$200 million commitment to NEA X in accordance with delegation of authority guidelines. An executive summary of this investment is provided in Attachment 1.

Alternative Investments

EXECUTIVE SUMMARY OF ACTION TAKEN
UNDER DELEGATION OF AUTHORITY
NEA X, L.P.

Action: Commit \$200 million to NEA X, L.P. which represents approximately 10% of the total capitalization of the fund.

Background: NEA was founded in 1978 by Frank Bonsal, Richard Kramlich, and Charles Newhall to invest in early stage venture capital companies. Over the past 21 years, the NEA partners have formed eight limited partnerships and have established their team as one of the premier venture capital groups in the industry.

CalSTRS is currently an investor in five NEA partnerships. CalSTRS committed \$25 million to NEA V in 1990, \$35 million to NEA VI in 1993, \$40 million to NEA VII in 1996, \$50 million to NEA VIII in 1998, and \$60 million to NEA 9 in 1999.

Analysis: NEA qualifies as a follow-on fund as identified in the Alternative Investments' policies.

NEA X will invest in and provide assistance to new and emerging growth-oriented businesses with superior profit-making potential. The investment objective will be to achieve a high level of capital appreciation over the life of the partnership. The portfolio companies in which the partnership will invest in will be located principally in the United States, and will focus primarily on the information technology and medical and life sciences sectors. The partnership is geographically diversified with offices in Menlo Park, California, Baltimore, Maryland, and Reston, Virginia, which enables the partnership to react quickly to new investment opportunities and portfolio company issues. The Partnership will focus its investment interest on well managed companies operating, or proposing to operate in, markets which are capable of using equity capital efficiently in the creation of their products and services.

Investment Thesis: Staff is recommending an investment in NEA X for the following reasons:

- Staff has identified NEA as a Tier 1 partnership.
- The NEA funds consistently generate investment returns that exceed the Venture Economics Upper Quartile Benchmark.

- NEA's venture capital strategy is consistent with the targets and ranges which have been approved by the Investment Committee to invest 16% of the Alternative Investment portfolio in venture capital limited partnerships.
- The NEA investment strategy provides a good fit in the STRS portfolio. There is very little overlap with STRS' other venture capital partnerships.
- Staff has received positive reference checks.
- Staff has received a positive investment recommendation from Pathway Capital Management.

Policy Compliance: This decision complies with the portfolio's policies and procedures, which were approved by the Investment Committee on June 3, 1998. A positive written recommendation by the Alternative Investment's advisor and CalSTRS' staff has been documented. This resulted after an investment analysis and due diligence was conducted in the manner as previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit \$200 million to NEA X. CalSTRS' commitment is subject to the successful negotiation of partnership terms and legal review.

By:

Delfina Palomo
Associate Investment Officer

Date_____

Reviewed By:

Deanna Winter
Investment Officer

Date_____

Recommended By:

Réal Desrochers
Director of Alternative Investments

Date_____

Approved:

James Mosman
Chief Executive Officer

Date_____